SIA

Foreign Activ

A 8825-2
1/2/87

An Analysis of Foreign Participation in the U.S. Securities Markets
Produced by the SIA Research Department

Securities Industry Association
120 Broadway
New York, New York 10271

Phone (212) 608 · 1500

Annual Subscription
$30.00 member • $48.00 non-member
$60.00 subscribers outside U.S. and Canada

Volume IX, No. 5 December 16, 1986

Foreign Activity in U.S. Equities
January-September 1986

"A Record-Breaking Pace"

The Score Card

Third-quarter foreign activity in U.S. equities adds but another quarter of heightened activity to the already record-shattering pace of 1986. Through the first nine months of the year, foreign gross transactions totaled $203.6 billion, some 28% ahead of 1985's all-time high of $159.0 billion. Annualizing this pace, 1986 gross activity is estimated at $271.4 billion.

Record transaction levels have translated into record net foreign purchases of U.S. equities. For the first three quarters of 1986, foreign investors have made net purchases of $18.3 billion of equities -- an enthusiasm approximating over three times 1981's annual record of $5.8 billion.

Who's Buying?

Foreign investors in all major regions have escalated activity in U.S. equities from 1985. Net purchases in 1985 at $4.9 billion were the third largest in the 1980s. Nevertheless, 1986 activity has left previous annual and quarterly records in the dust from the first quarter of the year on. European investors, traditionally the largest buyers of U.S. equities, have made net purchases of $10.6 billion of equities in the first three quarters of 1986, compared with $2.1 billion in 1985. Almost half of European net purchases thus far in 1986 were from the U.K., with net purchases of $2.2 billion by Swiss investors the second largest from Europe.

Asian investors have been the second most enthusiastic supporters of U.S. equities, $4.2 billion, during the first nine months of 1986. Strong interest, particularly in the

GROSS TRANSACTIONS IN AND NET PURCHASES OF U.S. EQUITIES
($ Millions)

	1986 First Quarter		1986 Second Quarter		1986 Third Quarter	
	Gross Activity	Net Purchases	Gross Activity	Net Purchases	Gross Activity	Net Purchases
Europe	$33,494	$4,770	$38,455	$3,819	$34,551	$1,983
Belgium-Luxembourg	1,549	135	2,375	275	2,350	271
France	2,036	(156)	2,908	358	2,109	316
Germany	2,711	598	2,779	(25)	2,432	(166)
Netherlands	1,458	396	1,854	455	1,484	138
Switzerland	9,618	1,406	10,275	807	8,487	(83)
United Kingdom	14,861	2,269	16,316	1,329	16,224	1,462
Canada	7,469	139	9,658	223	8,100	402
Latin America & Caribbean	7,632	344	10,717	1,405	9,726	522
Bermuda	2,178	4	3,092	357	3,023	229
Netherlands Antilles	2,312	175	2,990	217	2,788	39
Asia	9,254	860	11,480	1,305	16,224	1,869
Hong Kong	1,431	41	1,909	91	2,252	68
Japan	3,402	348	4,105	849	9,573	1,395
"Other Asia"*	3,765	316	4,800	220	3,554	317
Total All Countries	$59,271	$6,361	$72,117	$7,027	$70,282	$4,692

Source: U.S. Treasury

* Countries included are: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates.

third quarter, from Japanese investors accounts for 62% of Asian net purchases. Canadian net purchases of $766 million are over two times the 1985 level, and Latin American and Caribbean investors have boosted net purchases by 33% to $2.3 billion from 1985.

What's the Attraction?

Focusing on two of the major factors in the decision of foreign investors to diversify into U.S. equities -- the U.S. dollar and stock market -- finds a mixed performance. In a relatively uninterrupted slide, the dollar has given up between 20%-30% against the German mark, Swiss franc and yen from the

end of December 1985 to the end of September 1986. Over the same period, the dollar has held steady against the pound and Canadian dollar. Moreover, measured by Morgan Stanley Capital International Perspective, 11 foreign markets beat the U.S. market in local currency terms and 15 beat the U.S. market in adjusted-for-dollar terms. Nevertheless, with the declining dollar making U.S. stocks "cheap" and many foreign exchanges rumored as overvalued, the U.S. market has drawn foreign funds like a magnet in 1986.

By Comparison

The magnitude of foreign activity in U.S. equities can be gauged by using several measuring sticks. First, assuming 80% to 85% of foreign gross activity in equities is transacted on the New York Stock Exchange, foreign activity is running 10.9% to 11.6% of the total public volume in the first nine months of 1986. This would represent a minimal uptick in proportion, as an explosion of domestic volume has coincided with an explosion in foreign volume.

Using SIA's Investor Activity Report data, we estimate that institutional net purchases for the first nine months of 1986 on the major markets were $29.3 billion. While the total $29.3 billion represents only secondary market transactions, we can assume that much of the $18.3 billion of foreign net purchases also represents secondary market activity. In other words, it appears foreign net purchases of U.S. equities could be as much as half that of all U.S. institutions.

And Vice Versa

U.S. investors have reciprocated foreign investors' enthusiasm in like kind. Gross U.S. activity in foreign stocks in the first nine months of 1986 has reached an impressive $72.4 billion, already 59% more than 1985's $45.6 billion. However, while net purchases in the first half of 1986, $4.2 billion, were headed for a record, net sales in the third quarter put net purchases in the first nine months at a smaller but still impressive $3.4 billion. This compares to 1985 when U.S. investors accumulated a record $3.9 billion of foreign stocks.

Carolyn Hildebrandt
Assistant Vice President